

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm
Tom Burton
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Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Request from
Northern States Power Gas Utility for a
Miscellaneous Rate Change to Establish a New
Area Surcharge

ISSUE DATE: May 13, 1994

DOCKET NO. G-002/M-94-156

ORDER APPROVING AND MODIFYING
NEW AREA SURCHARGE TARIFF

PROCEDURAL HISTORY

On February 14, 1994 Northern States Power Company (NSP or the Company) filed a proposal to establish a new area surcharge, a rate additive designed to recover, over time, the costs of major system expansions from customers receiving gas service as a result of those expansions. The Company sought approval of a procedure for calculating future surcharges and approval of specific surcharges for a planned system expansion north of Brainerd.

On March 9, 1994 the Company made a filing updating information in its original filing and revising its proposal.

On March 15, 1994 the Department of Public Service (the Department) filed comments. The Department supported the Company's proposal. The Department also urged the Company to request necessary entitlement changes as soon as possible; reminded the Company of special reporting requirements triggered by reliance on backhaul arrangements with Viking pipeline; and recommended annual reports comparing actual and projected expansion costs and actual and projected surcharge collections.

The matter came before the Commission on April 21, 1994.

FINDINGS AND CONCLUSIONS

I. The Proposal in General

The Commission agrees with the Company and the Department that it is necessary to have clear cost recovery procedures in place if the Company is to respond quickly and effectively to requests or opportunities to bring natural gas service to unserved areas of the state. The

Commission finds the Company's proposal for determining new area surcharges fundamentally sound and will approve it, with the modifications set forth below.

A. Rate Design Approval Required for Each Project

The Company's proposal would give it almost unlimited flexibility in setting surcharge amounts for individual projects. The Commission cannot delegate its responsibility for maintaining a just and reasonable rate design to the Company, and will require that all surcharge amounts be approved by the Commission.

B. Tax Component Modified

Staff examination of the proposed surcharge formula revealed irregularities in the tax component which the Company has agreed to correct. The formula will be corrected to reflect the Minnesota jurisdictional income tax rate of 41.37%, instead of the all-Company tax rate in the original filing.

The formula's definition for income taxes will be changed to avoid an inadvertent subsidy of new projects by existing ratepayers.¹ Finally, the formula will apply an 11.80% rate of return on rate base and a 9.31% discount rate for the net present value calculation.

C. Shareholders to Assume Risk of Undercollection

It was always the Company's intention for shareholders to assume the risk that the surcharge would not recover the full cost of an individual project. This is appropriate, since the Company has full control over decisions to undertake major system expansions, is responsible for estimating the costs of those expansions, and calculates the amounts and terms of the surcharges necessary to recover those costs.

The tariff filing inadvertently provided that any shortfall in cost recovery would be spread over the body of ratepayers receiving service from the project. This provision will be deleted from the tariff.

D. Clarification that 15-Year Limit Applies to Projects, Not Customers

The Company's proposal limits the duration of new area surcharges to 15 years per project. Customers who connect with the expanded system at different times will therefore pay the surcharge for different lengths of time. The tariff filing confuses the customer-project distinction at one point, stating, "in no circumstances shall the surcharge term for any customer exceed 15 years. . . ." For purposes of clarity, the word "project" will replace the word "customer" in that sentence.

E. Further Filings Required

¹ The new definition will be $(T/[1-T] * (\text{Cust Surchg Revenue} + [\text{Book Depr} - \text{Tax Depr}] + \text{Deferred Tax} + \text{Salvage}) + T * \text{Equity Return})$.

To make the Company's tariffs as useful and informative as possible, the Commission will require the Company to include on sheet 5-15 a clear and detailed explanation of the procedure for calculating new area surcharges, including the methodology and definitions used. The tariff should also include, on sheet 5-21, a list of all projects for which the Company charges or proposes to charge a new area surcharge, giving the Commission-approved or Company-estimated ending date for each surcharge.

It is not clear from the filing what accounting procedures the Company will use to ensure that any undercollection of expansion costs is charged to shareholders only. The Commission will require a compliance filing clarifying this.

The Commission will require an annual report on all projects subject to a new area surcharge and the status of cost recovery for each. The report will update the cost information in each surcharge formula, give the number of customers served by each expansion project, state actual capital costs and projected capital costs for each project, explaining any significant discrepancies, and state actual surcharge collections and projected surcharge collections for each project, explaining any significant discrepancies.

Finally, to hold regulatory lag to a minimum, the Commission will require the Company to file for approval of any entitlement changes necessary for the Brainerd expansion project as soon as possible.

II. The Surcharge Amounts at Issue

In the expansion project at issue, the Company had originally proposed new area surcharges of \$6.00 for residential customers, \$14 for commercial and industrial customers, and \$100 for small interruptible customers. Later, the Company revised its proposal to provide for a single \$6 monthly surcharge for all customer classes.

The Company explained it believed the customers who would be paying the surcharge preferred a uniform surcharge to different surcharges for different customer classes. The Company had met with residents, elected officials, community leaders, and business people in the affected communities and stated there was overwhelming support for a uniform surcharge at these meetings. The Company also stated that approximately 99% of the potential commercial and industrial customers in the area are small businesses whose square footage and monthly usage do not exceed those of residential customers. The Company said there are two potential small interruptible customers, both schools, for whom the \$100 surcharge originally proposed would be prohibitive.

The Commission is not convinced that 99% of the potential commercial and industrial customers in the expansion area fit the Company's description. The Company did not file verified or verifiable data; it appeared to be relying on anecdotal evidence from community leaders. At the same time, however, the communities' perceptions are grounded in everyday experience and clearly have a strong factual basis.

While the 99% figure may be overstated, it is clear that commercial and industrial customers in the expansion area more closely resemble residential customers than they resemble commercial and industrial customers in more heavily populated areas. Since class-based differences in surcharge amounts are based on class-based differences in usage, and the two classes' usage is similar, it is appropriate to apply the same surcharge to both classes.

The small interruptible customers are another matter. While the Commission empathizes with the financial constraints under which local school systems operate, their usage levels and their cost of service are substantially higher than those of residential and commercial and industrial customers. It would be inconsistent with established rate design principles and statewide practice to require other customers to subsidize the cost of serving these customers. The Commission will therefore set the surcharge for small interruptible customers at \$100.

ORDER

1. The Company's revised new area surcharge tariff is approved, as modified above.
2. Within 15 days of the date of this Order the Company shall file revised tariff pages reflecting the modified tax component, rate of return, and discount rate discussed above.
3. Within 15 days of the date of this Order the Company shall file revised tariff pages clarifying that shareholders assume the risk of underrecovery of expansion costs; clarifying that the 15-year limit applies to projects, not customers; and setting forth a clear and detailed explanation of the procedure for calculating new area surcharges, including the methodology and definitions used.
4. Within 15 days of the date of this Order the Company shall make a filing explaining the accounting procedures it intends to use to ensure that any undercollection of expansion costs is charged to shareholders only.
5. Within 15 days of the date of this Order the Company shall file revised tariff pages including a list of all projects for which the Company charges or proposes to charge a new area surcharge, giving the approved or estimated ending date for each surcharge.
6. In future expansion projects the Company shall secure Commission approval of the new area surcharge it proposes for each customer class.
7. Beginning March 1, 1995 and annually thereafter the Company shall file a report on all projects subject to a new area surcharge and the status of cost recovery for each. The report shall include at least the following information:
 - (a) updated cost information for each surcharge formula;
 - (b) the number of customers served by each project;
 - (c) actual capital costs and projected capital costs for each project, with an explanation of any significant discrepancies;
 - (d) actual surcharge collections and projected surcharge collections for each project, with an explanation of any significant discrepancies.
8. For the expansion project at issue the new area surcharge shall be \$6 for residential and commercial and industrial customers and \$100 for small interruptible customers.
9. The Company shall make a filing requesting Commission approval of any entitlement changes necessary for the expansion project at issue to proceed as soon as possible.

10. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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